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Bankers' Attitudes Toward the CPA

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1. Introduction

THIS booklet should aid CPAs in improving their relations with bankers—an objective that merits serious attention because both CPAs and bankers are concerned with promoting the economic health of the business community. Because of their common aim, they ought to understand each other. That understanding is important not only in terms of the welfare of their mutual clients; it is important, too, in advancing the self-interest of each group.

Much has been accomplished in recent years to generate better understanding. An increasing number of joint CPA-banker meetings have been held under the auspices of professional accounting societies and banker associations, notably the Robert Morris Associates. This is encouraging. But, in the final analysis, it is the interaction of individual CPAs and bankers in their day-to-day working activities which provides a true test of the CPA-banker relations.

This booket is based on a survey to determine the attitude of bankers toward the CPA and his work.

Personal interviews in depth were conducted among the chief commercial loan executives of 100 banks by the credit investigators on the staff of Dun & Bradstreet. The banks were selected with care to provide a cross-section of opinion from institutions of different sizes operating in communities of varying population throughout the country. (See Appendix A for distribution of banks interviewed.) The interviewers used a guide developed in cooperation with Dun & Bradstreet and the American Institute's committee on cooperation with bankers and other credit grantors. (See Appendix B page 40.)

What was the bankers' verdict on CPAs as revealed in this nation-wide survey?

It can be summarized in two words: generally favorable.

The certified public accountant is well regarded by a great majority of commercial loan executives—both as an individual and as a member of a highly respected profession. He is considered helpful by nearly all bankers—and essential by a goodly number—in the banks' lending operations.

Bankers gave their reasons for these attitudes: They regard the CPA's reports, particularly if unqualified, as vital documents. They feel that he has become more "social" and less introverted in recent years and recognize that he occupies an increasingly prominent position in his community. They applaud his technical standards and respect his ethical values. They place great value on his role as financial counselor—though they suspect that his clients do not fully share their high opinion of him. They attribute a wide range of skills to him in the area of finance and control—sometimes assuming that he is endowed with talents that the CPA himself is not prepared to claim.

These compliments are gratifying. But the critical observations provide the basis for better understanding—and there were enough of them to justify the profession's concern.

The criticisms not only reveal areas in which CPAs might improve their services; they also indicate that some bankers need to acquire a better understanding of the environment in which the CPA works and the responsibilities that he can be normally expected to assume.

This job of education belongs to the CPA—and the bankers would be delighted if he undertook it. Many of them bemoan the lack of personal contact with practicing accountants and recognize that this leads to insufficient knowledge and misconceptions of their individual capabilities.

What were the most frequent criticisms?

Many of the bankers qualified their critical remarks by saying that their words applied to only a few CPAs—not to all or even most

CPAs. Nonetheless, the adverse comments are worth remembering:

1. The CPA has a too narrow view of his own function.

2. He forgets the needs of a bank for credit information and fails to supply sufficient detail, particularly in terms of comparative data for prior years.

3. He is often too preoccupied to offer a creative service to his clients—thus confirming a widely held belief that he is merely a "necessary evil" imposed on a business by interested outsiders.

4. He is not insistent enough in convincing his clients of the value of a "complete" audit which would justify an unqualified opinion.

5. He is sometimes inclined to sacrifice his objectivity to the wishes of his clients.

These are obviously serious charges. If any CPA is guilty of them, he ought to reform; but if he feels—as many CPAs have a right to feel—that the charges are too severe, then he has an equal obligation to enlighten the banking executives in his community.

This booklet is designed to help him in that task.

The first section is devoted to an analysis of the survey, describing in more detail the points mentioned in this introduction. It also describes the lending policies of the interviewed banks and the extent of their use of CPA reports in the evaluation of credit risks. Representative comments, in the bankers' own words, are included.

This is followed by a concluding section which offers some specific suggestions on how CPAs, individually and collectively, can seize the initiative in further improving their relations with bankers. Better understanding between bankers and CPAs will be reflected in better service to clients; better service means satisfied clients; satisfied clients are most likely to recognize the contributions of the independent CPA to the healthy growth of private enterprise.

2. The Results of the Study

Policies on Audit Requests

Almost three-quarters (73) of the commercial loan executives regularly request an independent audit before granting a loan or establishing a line of credit. Ten of the bankers said that the examinations are a matter of bank policy and exceptions are rarely permitted. Typical of these emphatic comments were the following:

> "We request audits on all loans except those which involve only a nominal amount."
>
> "Almost without exception we require audits covering three to five fiscal years."
>
> "We try to get an audit from all prospective borrowers—especially new ones."

Despite the fairly rigid audit policy of a few banks, many of those who regularly request audits indicated that their importance was contingent upon a number of factors. For example, 29 of the respondents in this category noted that enforcement of the audit requirement depends largely on the size of the loan. These bankers felt that the cost of an audit would be disproportionately high in the case of small or short term loans and would not be justified in the light of the relatively small risk assumed by the bank. Others brought up such factors as the size of the customer's company, the reputation and over-all financial position of the borrower, their familiarity with the individual borrowers, and whether or not the account was a new one.

In many cases audits are not usually required from established customers who have had accounts with the banks for a number of years, unless they are seeking an increase in their line of credit. The bankers were largely concerned about obtaining as much information as possible on new borrowers. Other qualifications mentioned by some banks included the quality of the company's management and whether or not the loan would be secured.

There follows a breakdown of some of the more frequently cited circumstances which affect the banks' requirements for audited statements:

Circumstance	*Response*
Size of loan	34
Past experience with borrower	20
Personal familiarity with individual company	12
Reputation and size of company	12
Type and complexity of business	11
Whether loan is unsecured	10
Financial strength of borrower	8
Type of loan and period of repayment	7
If company is a new customer	7
Opinion of company management	5

These factors are also considered by the 23 banks which require audits from their customers only on large loans or in special situations individually determined by the banker. Customarily in these cases, if the available balance sheets and profit and loss statements show a favorable position over a period of several years, these banks do not usually request an audit. One medium-size bank insists upon an audit only in the event of defaults.

Only three small banks lack any audit requirement in their commercial loan policies.

Many of the bankers acknowledged—directly or by implication—that the audit request would often be abandoned if it aroused strong resistance on the part of the customer. However, there is definite evidence to suggest that the use of audits by banks is on the increase. A study conducted among a substantial number of Texas banks in 1952* showed that 38% of the banks made virtually no use

* *The Use of Independent Accountant's Reports in Texas Banks* by C. Aubrey Smith, Bureau of Business Research, The University of Texas, Austin, Texas, 1952.

of audit reports and the over-all incidence for regular borrowers was about one out of every 20 loan applications. Only 23% of these banks regularly requested audits for lending purposes or the establishment of credit, as compared with the 73% in the present survey.

Here are some representative comments on bankers' audit requirements:

> "We always ask for an independent audit, particularly if a loan is unsecured."

> "Our insistence upon an audit depends on the size and type of loan requested and our opinion of the management."

> "It is customary for us to require an audit for all term loans, but we try to get them on all companies if possible. However, we must make exceptions at times."

> "Where credit exposure is great and it appears that the present statement of condition might not be too accurate, we insist upon an audit. This is relatively rare, however."

> "We insist on it in the case of term loans and are trying to encourage our customers to accept an audit under other circumstances. We try to point out that an audit is of great value to the customer as well as to us."

> "We request audits as the occasion would make it necessary. It would depend on the size and nature of the loans and the company involved. Nearly all of the larger borrowers volunteer their audit reports on their own initiative."

> "We prefer audits on all commercial accounts, but we get only a few percentage-wise."

> "In many instances, one of the bank's executives who is a CPA will conduct the necessary audit himself. Although this is not an actual audit, he looks over the books thoroughly."

> "Because of competition, our bank does not request an audit of a prospective customer. After the customer is sold, an audit is then requested if the bank feels that it is necessary."

> "Each case is considered separately on its own merits. There are no set rules in this bank as to whether or not an audit is required."

Size of Loans Requiring Audits

As already indicated, the size of the credit or loan request is often a determining factor in the bank's decision on whether or not to seek an independent audit. More than half of the loan executives cited certain maximum amounts above which a loan normally would not be granted without an audit. (See Figure 1.)

FIGURE 1

Maximum Size of Loans Granted Without Audit

Loan Limit	*Response*
No Loans Without Audit	10
$ 1,000	3
5,000	7
10,000	5
15,000	2
20,000	2
25,000	7
50,000	8
100,000	8
No Established Limits	48
Total	100

Size is still an important factor with many of the banks that did not indicate established limits. Many of these bankers merely said that audits were usually required on "larger" loans. However, a number of others indicated that these limits varied according to prior experience with losses on unaudited companies and the factors previously indicated as governing audit policy. The larger banks, as might be expected, have somewhat higher limits on the size of loans which will be granted without an audit. However, exceptions to this were numerous. For example, several of the largest and smallest banks require audits for all loans, while a number of large banks were represented among those citing low loan limits. Significantly two out of the four banks that occasionally grant their legal maximum loan without an audit were among the smallest banks interviewed. Also, about half the banks that grant loans up to $100,000 without audit were in the smaller category. Some of these banks are located in the smaller cities, and stated that their familiarity with prospective borrowers often made it unnecessary to require an audit. However, it seems generally true that smaller banks are less stringent in their audit requirements—either because they do not appreciate the value of an audit, or because they are reluctant to insist upon an audit at the risk of losing a prospective borrower.

Typical quotations on loan limits include:

"Size of the loan is of importance as well as the good reputation of the borrower. However, we have a maximum amount of $5,000 that can be loaned without an audit being made."

"We have no set limits but probably would not grant a loan over $50,000 without a complete audit."

"The size of the loan will depend on circumstances and the relationship of the customer to our bank. For example, an established concern with an excellent balance and good tax records could obtain a large loan without an audit."

"If a loan of $4,000 or $5,000 is requested, we would not require an audit. But if the loan was for $20,000-$30,000, we would deem it necessary."

"Our full legal limit of $350,000 has been extended in the past without audit. It depends on the over-all financial position of the borrower, the current management and the schedule for repayment."

"We don't have a definite policy, but all loans over $1,000 are reviewed by our directors monthly and they usually require an audited statement."

"It depends on whether loans are being granted on the basis of security or signature. Loans under $10,000 are normally secured; those of larger amounts are frequently granted on the basis of financial strength indicated by the audit. Therefore, our maximum loan without an audit would be $10,000."

"Ordinarily $50,000 is our limit for an unsecured or unendorsed note. But, the company must have an excellent record in order to borrow as much as this without audit."

"The amount of the loan is practically the only governing factor in our audit policy. An audit is not necessary if the amount is less than $5,000. Generally, above this amount, there are no exceptions to our requirement for an audit."

"We prefer audits in all cases. However, circumstances of the financial standing, size of loan, and the cost of the audit to the borrower frequently makes this impractical."

"We have no policies as to the amount that is loaned without audit. However, we usually make the request on borderline cases where large amounts are involved."

In summary, the size of a loan emerges as the most significant element in the audit policy of the banks—with $25,000 representing the average limit above which audits are usually requested. These requirements are sometimes modified by considerations of past experience with the prospective borrower, the secured status of the loan, the nature of the company's business and the reputation of its management.

The Importance of "Opinions"

More than 90% of the loan executives maintained that they either look for or require an "opinion" on a report from an accountant. "If there is no opinion," said one executive, "we ask for it. We consider it to be of prime importance in judging the reliability of the statements."

Some of the bankers, however, modified their comments with statements indicating that the opinion was not of too great importance in cases where the balance sheet indicated the company to be in an excellent position. In these cases they are apt to accept statements prepared by the customer.

Several loan executives also mentioned that an opinion is not always received even when requested. "I receive audits all the time which are not even signed by a certain CPA, and I can't seem to get him to give an opinion," said one banker. A number of them felt that the cost is such a significant factor—especially with small business—that they are often not inclined to press for unqualified opinions except on larger loans. Several conceded that their desire for such reports had to be subordinated to the practicalities of competition.

Although most of the loan executives appeared to have a fairly clear understanding of the differences between unqualified opinions, qualified opinions and disclaimers, some of them were obviously not familiar with the degree of responsibility assumed by the accountant. Typical of such comments were:

> "Certainly we look for an opinion. If you don't get it, what do you have? We have to put responsibility for the figures somewhere."
>
> "The opinion is not too important, because the accountant's signature should speak for itself."
>
> "An unqualified opinion means that you know you can rely on the figures 100%."

"We always look for an opinion, and when we don't find it, we feel it reflects on the accountant."

"An unqualified opinion can be relied upon to give an accurate picture of the business without reservation."

Although a heavy preference was expressed for "unqualified" opinions, "qualified" reports are usually acceptable—depending on the nature of the qualifications. On the other hand, "disclaimed" reports are generally approached with caution. Many banks consider that these reports have no more value than a company-prepared statement, and a number of bankers refuse to accept them from their customers.

One loan executive in a medium-sized bank in the Southwest commented at length on this matter:

"An unqualified opinion of a reputable accountant is highly regarded. We feel we can rely heavily upon him. If an accountant 'qualified' his opinion, the figures may or may not be depreciated, depending on the importance of its qualified item. For example, if the inventory account for a large share of the current assets has yet to be verified, it completely negates the value of the statement to us. We never accept disclaimed balance sheets."

This position was held by nine other bankers.

Sixteen of the respondents mentioned specifically that "qualified" or "disclaimed" reports meant more research for the bank. Although their final credit decisions are often based on factors other than the accountant's opinion, they place considerable emphasis on the "unqualified" report—and usually study other reports with great care. Thus, the acceptance of a statement by many banks is largely dependent on the type of opinion rendered.

Some typical views:

"We always shoot for an unqualified opinion. Usually a qualified opinion leaves a lot to be desired and might require further appraisal."

"We try to get an unqualified opinion in every case and make liberal allowances for those that are qualified. We will not accept a disclaimed report."

"We accept an unqualified report at face value. A qualified report puts more responsibility on the bank. In the case of a disclaimer the bank has to do much more investigation on its own."

"We expect the accountant to support his reputation by his opinion. Therefore, the greater the reputation of the CPA, the more apt we are to accept his report at face value. We would not accept audits of all CPAs."

"The unqualified opinion is most important to us. We don't have to worry if it's from a good accounting firm. If it is qualified we would probably have to check to satisfy ourselves."

"The type of opinion is carefully examined, because it shows the scope of the CPA's engagement and how much confidence we can place in the figures."

"There is just no substitute for unqualified opinion rendered by an accountant held in high regard."

The Selection of Accountants

Virtually all of the interviewed banks have recommended accountants to prospective or established customers. Roughly half of them have recommended a particular firm under certain circumstances, especially when a specialist seemed to be needed. However, only four bankers indicated that this was a frequent practice. Most of them ordinarily avoid recommending a single firm because of the risks of being accused of "partiality" and of assuming some responsibility for unsatisfactory reports.

The most common practice is to give the borrower a list of several accounting firms that the bank feels to be qualified. Although emphasizing their need to be impartial, the bankers acknowledge that they recommend CPAs who are familiar to them. As one executive put it, "We can't afford to take chances on somebody we don't know." One bank recommends the accounting firms which maintain accounts with it. Six of the banks, as a matter of policy, decline to recommend specific firms by name. They either refer the customer to the classified telephone directory or otherwise leave the selection completely up to him.

Although some banks hesitate to participate in the initial selection of an accountant, seventy-four of the loan executives feel obligated to advise a customer or prospective borrower to change his accountant when, in the bank's view, such a change would be beneficial. Most of them indicated that this advice was offered only rarely

—and more often in larger cities than in the smaller communities. The most frequently cited reasons for suggesting a change in accountants are shown in Figure 2.

FIGURE 2

Usual Reasons for Suggesting a Change in Accountants

Reasons	*Responses*
Inadequate or Incomplete Reports	24
Present Accountant Is Not Certified	9
Failure to Improve Internal Control, Systems and Budgeting	8
Misleading or Incorrect Figures Submitted	8
Specific Weaknesses or Need for a Specialist	6
Incompetent to Meet Client's Needs	6
Lack of Confidence in Accountant	5
Availability of Larger Firm for Growing Customer or Large Scale Operations	5
Other Accountants Are More Familiar with the Customer's Industry	4
Failure of Accountant to Cooperate with the Bank	4
Local Firm Can Provide Better Service than Out-of-Town Accountants	4

Only two of the bankers have ever urged a change in accountants because they felt their customer was being charged too much for the services rendered. However, about half of the lending officers recognize differences in "quality," "ability," "competency," etc., among individual CPAs and firms. Generally, these differences are a matter of degree and often bear some relation to the specific needs of the banks' customers.

In evaluating the abilities of CPAs to satisfy their customers' needs, most bankers attached little importance to the size of the firm—providing it is equipped to furnish prompt and thorough service. They base their judgment on the reputation of the firm and on their experience with its personnel.

Almost three-quarters of the interviewed bankers expressed no preference between large and small firms as a group. Typical comments:

> "We are primarily interested in the caliber of men serving the particular account and we find excellent ones in firms of all sizes."

> "We judge on the basis of the quality of the accounting work as it applies to our business."

Those who did have a preference usually qualified their statements by indicating that the preference applied only to certain situations. The advantages cited in favor of either group were often similar—suggesting that different bankers have had different experiences with both large and small firms. The remarks which seemed to favor smaller local firms usually included a reference to their accessibility and their close personal relations with the client; those which indicated a preference for larger firms most usually related to the availability of specialists and the ease in handling multi-office clients.

More than half of the bankers consider membership in a State Society and/or the American Institute of Certified Public Accountants to have some bearing on their evaluation of a CPA. Those in the Far West ran opposite to the popular opinion, with only a third in this region feeling that a CPA's local or national professional affiliations are of importance to them. The general feeling seems to be that the professional groups contribute to the development of their members and enforce high standards of performance.

Several bankers who did not take into account a CPA's professional affiliation, simply assumed that most CPAs belong.

"This bank has rarely found a CPA," one of them said, "who isn't a member of the American Institute."

The interest of bankers in professional membership was revealed in these remarks:

> "The possibility that a CPA has been barred from an association might be very important to us."
>
> "We believe such membership serves as a recommendation."
>
> "Associations help to broaden the CPA's knowledge. We feel that if he doesn't have enough interest to keep up with these organizations, he will let himself fall behind in ways which will directly affect his work."
>
> "The only CPA we ever had trouble with was not a member of the Institute."
>
> "Those who are members of the state or national associations are accepted as completely reputable. We would do additional checking on those who were not, before we would accept their work."

"I consider this factor to be important because activities in these organizations show the interest of the CPA in keeping abreast of his field and indicates a certain amount of reliability."

Determining the CPA's Qualifications

The respondents were asked what steps, if any, were taken to determine the competence and reliability of a prospective borrower's accountant.

Only seven banks took no precautions. Most of them initiate certain checks, keep certain records or claim to know adequately the work of local accountants. Figure 4 shows the different approaches adopted by the banks—many of them, of course, using more than one procedure.

FIGURE 3

Steps to Determine Qualifications of CPAs

	Response
Information Is Sought from Other Banks	36
Personal Acquaintance with Local Accountants	24
Only Requirement Is that He be a CPA	20
Refer to Card Files, Records and Directories	17
Accept CPA Certificate as Prima Facie Evidence of Competence	17
Prior Experience with the Bank is Evaluated	16
Checks are Made with Other Accountants	15
Check with Accountants' Associations	13
Question of Competence Is Rarely if Ever Raised	7
Credit Services Are Investigated	5
Checks Are Made with Other Clients	5

In explaining the procedures of his bank, one loan executive said: "We keep files on all our customers' CPAs—this is more or less a character reference file. If any accountant has caused us any burdensome trouble by his methods of preparation, or has advised his client not to submit certain information, or if he is involved in any questionable business operation that is under scrutiny, etc., this information is put into the files. In addition we also talk with other banks about accountants unknown to us and consider it a favorable factor if he is a member in good standing of the American Institute of Certified Public Accountants." Another executive in a large Midwest city said: "Our bank requires that the accountant be a certified public accountant. We keep an up-to-date index of all CPAs and note if they are satisfactory based upon our, or other banks', past experience with them."

Clearly most banks are not only concerned with, but are often aware of, the abilities and the records of the accountants in their locale. If the accountant is unknown, the typical bank goes to some length to check on his reputation—frequently obtaining the needed information from another bank.

Procedures in Granting a Loan or Establishing Credit

Most of the bankers (85 per cent) usually discuss with the borrower or his accountant the type of financial report wanted. These discussions are primarily with the borrower; the accountant is consulted only in a minority of the cases. If an accountant is included, it is usually because the bank feels that special circumstances require his presence, or because the customer has insisted upon his attendance. A good deal of hesitation was shown by many bankers in dealing directly with the accountant. The policy of most banks requires the loan executive to obtain a customer's permission in advance. Some bankers obviously fear that such a request might antagonize the borrower. However, it is also evident that most bankers feel that CPAs are usually not needed at the loan discussions. An officer of a medium-size middle eastern bank sums up this attitude in these words:

> "The borrower is instructed clearly on what kind of financial report is required. The accountant is rarely approached, for he can get his instructions from our customer. However, if for some reason it is apparent that the borrower does not clearly understand what the bank wants, permission is requested to contact the auditor. When large amounts are involved and you are dealing with top-caliber management, it is seldom necessary to seek out the accountant."

Conference with the customers' accountants normally takes place in only 24 banks. These loan executives believe that such joint meetings eliminate confusion and save time. For example:

> "Normally the borrower asks to bring his accountant in for a joint interview. If the payment schedule is designated by the bor-

rower, the accountant is asked to prepare a flow sheet."

"In most cases we talked to the accountant to avoid confusion over what we want. First of all we asked the client's permission."

"We like to bring the accountant into the picture in order that all parties are aware of the type of information required."

"We prefer to have the accountant attend the conference in order to avoid any misunderstandings."

Although the bankers are likely to talk to the borrower rather than to the accountant during preliminary discussions, 94% sometimes find it necessary, once the financial report is received, to discuss the data with the accountant. This ordinarily results from the bank's desire to verify certain items or procedures or to acquire additional information. It might be added that the need for such conferences would be appreciably reduced, if the borrower was encouraged to include his CPA in the preliminary discussions.

FIGURE 4

Reasons for Consulting Accountants After Statement Is Submitted

Reasons	*Response*
Clarification of Data	43
Additional Information Required	30
Inadequacy of the Statement	14
Accountant Is Best Informed	14
Breakdown of Receivables Required	13

One loan executive cited several reasons why he found it profitable to hold frequent conferences with accountants. "It is often necessary to call on the accountant," he said, "for an analysis of receivables, the methods used in determining inventory values and depreciation charges. Sometimes we have to specifically ask for a profit and loss statement or we find that balance sheet items need verification." Another said: "Sometimes the bank requires more information on such things as stock ownerships and schedules for retiring long-term debt."

In the main, it appears that the accountant plays an important role in aiding banks to evaluate a prospective borrower's financial position. This assistance, however, is usually requested by the bank only after financial statements have been submitted.

The CPA's Role in Credit

"We could not extend credit without the CPAs."

This statement characterized the comments made by several of the 63 bank executives who rated the work of the CPA as "essential" in their lending activities. Another 33 executives appraised his services as "very helpful"; while three found his work only "somewhat helpful." The term "unimportant" was never used. Typical of the favorable comments were the following:

> "We couldn't do our job without them."
>
> "On large loans we must rely on the CPA's findings."
>
> "They lend confidence to the figures submitted and reduce our research to a minimum."
>
> "In most cases we would not make a loan without a CPA's report."
>
> "We would not loan any sizable amount without an audit by a certified public accountant."

Several of the loan executives who regarded the CPA's work as merely "somewhat helpful" thought that it was not the determining factor but only one of a number of aids.

In the central region of the country, relatively fewer executives (only 45 per cent) appraised the CPA's work as "essential"; an equal number said "very helpful." In all other areas at least six out of ten gave the higher ranking. The tendency to rate a CPA's services as "essential" increased with both the amount of the bank's deposits and the amount of loans for commercial purposes. Smaller banks in smaller cities tend to feel that their personal knowledge of local businesses reduces the significance of the CPA's opinion.

Other Sources of Loan Information

Although the CPA's review of a financial statement is heavily emphasized in commercial loan evaluation, several other sources of credit information are used.

About half the respondents mentioned various credit agency reports. Dun & Bradstreet reports were singled out in 25 instances. A large group (32) referred to the unaudited financial statements provided by employees of the prospective borrowers. Specific checks with other banks and suppliers and personal investigations are also important factors. The use of the bank's own auditing department and the statements of non-certified accountants were each mentioned by nine respondents.

Most of these other sources probably augment rather than supplant the work of the CPA—except for unaudited statements and those signed by non-certified accountants.

Other Sources of Financial Information	*Response*
Financial Statements Prepared by Customer	32
Various Agency Reports	28
Dun & Bradstreet Reports	25
Personal Investigations	23
Other Banks and Suppliers	23
Statements of Non-Certified Accountants	9
Bank's Audit Department	9
Customer's Income Tax Returns	5
Check of Customer's References	2

One loan executive provided a detailed review of his procedures: "We have a staff of field examiners who are CPAs with experience. If circumstances warrant, we will send them to a prospective customer for an audit as well as an appraisal of the management, plant, and office systems. This is done only in situations where a 'tight' condition is in evidence and where a sizable bank loan is outstanding. We also use Dun & Bradstreet reports, Moody's, and SEC data, make direct contacts with customer's creditors and competitors and will often check with other banks."

Appraisal of CPA Reports

In terms of dependability, thoroughness, and clarity, the CPA's reports are regarded with widespread favor.

The responses varied in details and in emphasis; but, most of them could be assigned to five ratings:

Ratings on CPA Reports	*Response*
Excellent/High Quality/Very Good	32
Good/Accurate/Adequate	43
Satisfactory	13
Some Poor	9
Leave Much to be Desired	3

These bankers show a relatively high degree of satisfaction with the work of CPAs—as do statements like these:

> "Well over 90 per cent of the reports are very well prepared."
>
> "In most cases they meet all our requirements."
>
> "They serve our purpose in every case."

An interesting sidelight was revealed by one respondent. He commended the work of CPAs and then said: "The banks and local CPAs began meeting about four years ago to discuss mutual problems. This has led to further improvements in audit reports and has been beneficial to all."

On the other side of the ledger were the remarks of those who rated the works of CPAs as only "satisfactory" or "poor," or who said that it "left much to be desired." Briefly, some of the shortcomings were "general lack of explanation," "insufficient detail," and non-adherence to generally accepted standards. The need for more "detail" emerged as the chief problem area as shown by these comments:

> "The CPAs seem to encourage their clients to submit 'short form' balance sheets which the bank feels are relatively useless."
>
> "Explanatory notes are not explained to the client by the accountant and are often omitted from a report."
>
> "Some reports leave much to be desired in the realm of providing details."

Areas Suggested for Improvement

What might the CPA do to serve better the special needs of bankers?

Again, a plea for more detail was voiced:

> "The aging of receivables is not consistently done. Furthermore, reports should always identify stockholders and officers and give stock ownership breakdowns if possible."
>
> "Contingent liabilities should be given in detail. Also the reconciliation of the surplus is a must."
>
> "We need more on the aging of receivables and the balances of inventory. Surplus reconciliation and stock ownership of closed corporations is also lacking."

"The report should show if the tax returns have been audited by the government. We would benefit from age data on receivables and payables. We feel that the statement should be signed by the men who made the audit not just the firm name."

"Some audits do not break down inventories. We also need a better classification of assets."

"We need more specific breakdown as to current and deferred assets and liabilities."

"We would like to get the statement prepared for management which includes complete schedules."

"Aging of receivables . . . breakdown of various items . . . a long form report."

Another banker offered a comprehensive explanation of how a CPA's report should be designed and what it should contain:

"On new borrowers we want the latest fiscal year end financial statement plus comparable statements for the previous two years. Statements are to include the complete unqualified opinion of the auditor, with letter of transmittal. Financial data are to consist of: the balance sheet, profit and loss statement, aging of accounts receivable, bank loans (if any in existence), detailed breakdown of inventory as to raw materials, work in process, finished goods, reconciliation of the net working capital, reconciliation of the surplus account, reserves for doubtful accounts receivable, write-off of bad debts on accounts receivable, auditor's notes on the company's tax status (covering the last year examined by the federal tax examiners), reserves set up for taxes, comments on any unusual items that need explaining such as "investment," long term debt when created and how it is amortized, any restrictions relating to working capital, payment of dividends or other restrictions in effect as a result of long term debt, dividends paid during the year, dividends declared, complete explanation of any contingent liability, sales commitments, purchase commitments, changes in treasury stock account if any, breakdown of bank lines in existence, a list of the stockholders if a closed corporation, management survey containing opinion as to capability of management, changes that have recently occurred or are contemplated in the company's basic policies, production, items produced, diversification, complete breakdown in the profit and loss statement of cost of goods sold and, of course, the accountant's signature.

This banker went on to say: "This represents my ideal of what we should get. What we do get is another story."

Most loan executives would welcome a great deal more data from the CPA. As the summary below reveals, the items which are most in demand include: information on the age of receivables, breakdowns in schedules, inventory data, and surplus reconciliation. Uniform presentations and more adequate notes of explanation are other areas designated for improvement. Another group of respondents believes that the long form report should be submitted as a matter of standard practice.

Only 24 loan executives did not have any suggestions on ways in which CPA reports could better fit their needs.

FIGURE 5

Recommendations for CPA Reports

	Response
Aging of Receivables	29
Breakdown in Schedules	21
Inventory Breakdown	15
Reconciliation of Surplus and Networth	15
More Notes of Explanation	14
More Information on Customers' Tax Status	12
More "Long-Form" Reports	8
More Uniform Presentations	7
Miscellaneous Recommendations	14
Generally None	18
No Answer	6

Bank Customers Satisfied with CPA

Almost all the loan executives (98) believe that businessmen are generally satisfied with the services performed by their CPA.

Only one dissented, and one declined to answer the question.

Some of the bankers were reluctant to speak for their customers; but almost half of them had one or more suggestions to make. The subject of fees was raised by 10 bankers—seven of whom thought that some businessmen feel that the charges are too high. Several added that "everyone would like to get more for his money," or suggested that the clients were "just not familiar with the amount of work involved." A number of loan officers regretted the fact that accounting costs preclude more assistance to small business.

Ten bankers claimed that their customers want more interpretive reports and constructive advice. Other criticisms included the businessman's lack of knowledge of what CPA services are available and their value to him, slowness of service, a need for more complete reports and the non-uniformity of accounting procedures. Certain responses may indicate that some loan executives fail to distinguish between what the businessman wants from the CPA and what the bank feels is desirable.

FIGURE 6

Areas Which Bank Customers Feel Could Be Improved

	Response
Reduce Cost of Services	10
Constructive Advice	9
Client Knowledge of Available Services	5
Faster Service	5
Fuller Explanation of Services, More Complete Report and Supplementary Data	3
More Uniform Practices	2
Tax Assistance	2
Disruption of Office Routine	2

Here are some typical suggestions:

"Many businessmen feel CPAs don't offer enough constructive criticism and they have to 'pump' them for comment or advice."

"Some businessmen feel that fees charged by CPAs are too high. However, in most cases in this category the businessman does not realize the value and work involved in the job that a CPA does."

"More long-form reports should be prepared. They would come as a natural result of a better selling job by the CPA."

"CPAs should supply more complete information on the various phases of their client's businesses."

"The principal area for improvement lies in analyzing the financial conditions and offering suggestions for improving internal control, cost analysis and accounting systems."

"More uniform compliance with accounting procedures."

"Speed of service can be improved. CPAs should be in a better position to suggest tax savings, by being better informed on the subject."

"CPAs should explain the amount of work involved in preparing a financial statement to prepare the customer for his bill."

"They should provide service to the small business at a lower cost—perhaps on a clinic type basis."

"Many businessmen would like more attention to improvements in their methods of business management."

"They should train client's bookkeepers better to follow the suggested system. They should follow up more closely the manner in which clients are kept and make more recommendations."

"CPAs should demonstrate that their services are not only for tax purposes and to discourage dishonesty, they should show that their services provide other benefits such as helping business in securing credit, supplying statistical data, etc."

Importance of the CPA

Seventy-one of the bankers believe that a CPA's value to his client is equal to that of other professional men and consultants—lawyers, insurance counselors, advertising agencies, labor relation consultants and management engineers. Another fifteen loan executives place the value of a CPA at an even higher level:

"The CPA is of greater importance—the frequency of need puts the accountant in the 'vital' category."

"The CPA should rank first. He is one of the greatest assistants to business, and he is needed constantly."

"Each has his own value, but, in my opinion, the CPA should be rated tops."

Some respondents (eight) felt that the CPA's importance is contingent upon the size of his client. For example, one fairly large bank said: "The CPA would probably rank first in small and medium-sized businesses—probably lower in large businesses where labor relations and patent problems may make these specialists more important. Besides, these companies frequently have one or more CPAs on their own payrolls."

Only two executives failed to rank CPAs equally with other consultants and specialists. One of them, while recognizing the importance of accounting, felt that individual CPAs had failed to measure up to their opportunities.

Several bankers suspected that their own opinions might be higher than those of the CPA's clients. "The CPAs are of equal or greater value in our opinion," one of them said, "but probably not in the eyes of their clients who tend to look upon them as a 'necessary evil.' CPAs need to do a better selling job on the value of their services."

It seems reasonable to conclude that CPAs are valued advisers in the eyes of commercial loan executives.

The CPA as a Professional Man

There is further support for this conclusion in the response given to another question: "In your experience with CPAs, how do they fit in with your concept of a professional man—that is, high ethical standards, and solicitude for the client?"

Only two bankers were negative in their answers. One said ambiguously: "On the average, CPAs are as good as their clients." The other: "I think the average CPA favors the client." Fully three-quarters of the banking executives thought that the CPA's professional standing is high and that he fits their concept of professionalism. They offered such unqualified endorsements as "excellent," "at the top," "very highly regarded," "professional in every sense." A small group (about 20) were less generous in their praise but still accorded the CPA a rating of "good" on this score. For example:

> "Generally the CPA fits in well. There are a few exceptions, of course."
>
> "Most of them are ethical, but unfortunately a few of the smaller firms are sometimes too easily influenced by the desires of their clients."
>
> "They are very highly regarded. However, I do not believe they quite reach the ethical standards of doctors and lawyers."
>
> "Generally very good. However, exceptions have been noted."
>
> "Varies considerably. Some very good on all counts—others not."
>
> "For the most part, CPAs are equal to other professional men."

Wide Variety of Services Recognized by Bankers

In appraising the CPA's over-all value to business, almost 90 per cent of the bankers recognize the significance of auditing. Tax work ranked second in terms of value. The bankers also referred to certain counseling activities on fiscal policies, cost systems, accounting practices, etc.

A large group did not isolate any particular area of a CPA's work as being especially valuable; they merely insisted that every business enterprise could profit from some or all of a CPA's services.

Asked if a CPA's value might vary according to the size of the client, fifteen executives thought that small and medium-sized businesses were more likely to benefit than the large firms. Eleven said just the opposite. Twenty executives agreed that size might affect the value of a CPA, but did not explain exactly how the two are related or how the effect of size is measured. An almost equal number claimed that the CPA was valuable to all business concerns.

Some of the bankers summed up their views in these words:

> "The CPA can render very valuable services. He can aid in over-all company planning, show ways of saving money, tell management how to keep in line receivables and payables; keep down unnecessary borrowing, suggest changes in accounting systems when necessary, budget for taxes and so forth."
>
> "The CPA keeps the company up to date on accounting methods and recommends improvements in accounting methods. With the larger companies there is generally not the same need since such firms have CPAs on their own staff."
>
> "All businesses benefit from the CPA, but his value probably increases with the size of the business."
>
> "The CPAs perform a major service. They enable businesses to take full advantage of tax saving legally permissible, and help them keep out of trouble resulting from ignorance. Help with financial programs—in times of expansion this is especially worth while."
>
> "Probably of more value to the medium-sized concern. Small businesses frequently do not need much CPA assistance, i.e., their records would probably be too incomplete for a detailed study. Large firms usually have their own CPAs. However, a good accountant can be of great service to any business."

There was only one negative opinion on the CPA's contribution to business: "They fail in giving guidance. Their work is too mechanical."

As a group, loan executives obviously know a good deal about the services available from many accounting firms. Tax work, financial advice, cost analysis and budgeting were the most commonly recognized areas of non-auditing services. Fifteen bankers, however, associated CPAs with auditing work only.

More than half of the executives have occasionally recommended one or more of the non-auditing services to bank customers. As indicated in the table below, "tax work," "counseling," "cost analysis" and "budgeting" and the setting up of "bookkeeping systems" in that order, were the CPA functions most recommended.

FIGURE 7

Non-Auditing Service Recommended to Customers

Service	*Response*
Tax Services	31
Counseling and Financial Advice	21
Cost Work	12
Setting Up Accounting Systems	12
Budgeting	6
Other (including special investigations, estate planning, etc.)	4
None	22

Most of the 23 executives, who recognized non-auditing services but had not recommended them, were not too explicit as to why they did not make such recommendations. Seven said they had never found the "need" or "occasion" to do so; seven offered no explanation. Five comments were more enlightening; each revealed an inclination to recommend a management consulting firm for services of a non-auditing nature. Two of the latter felt that CPAs should perform some of these services, but were not equipped to do so. The others evidently believed them to be unrelated to the functions of a CPA.

CPAs as a Source of Bank Business

Most bankers recognized that the CPA himself can be a source of new business. More than 90% of the interviewed executives reported that it was a common practice for CPAs to refer clients to their bank for a loan. Some of the bankers elaborated on their answers with these comments:

"Close relations have been mutually beneficial."

"Yes, we invite the CPAs to refer their client and cooperate in every possible way."

"Some accountants refer their clients because they are familiar with our procedures and requirements through long association."

"Yes, this is quite common. The CPA is an important source of business."

"CPAs of depositors are a good source of business."

"It is fairly common to get financial assistance for the client. It is more frequent with the smaller companies."

The Desirability of Frequent Contact

An overwhelming preponderance of bank executives (about 75 per cent) thought that frequent contact with CPAs was desirable in order to exchange views on common problems. However, as the following tabulation discloses, the actual extent of contact suggests that more meetings ought to take place:

Frequency of Contact	*Response*
Frequently	16
Occasionally	23
Seldom/Rarely	44
Not at All	12
Only on Request/or Special Cases	3
No Answer	2
Total	100

One officer of a medium sized Midwestern bank wished that more accountants would "take the trouble" to talk with bankers. Another placed the responsibility for inadequate contact on the accountant. "Frequent meetings would be beneficial to all," he said, "but the CPAs are too busy."

About 10 bankers felt that contact should be limited to the specific problems of individual borrowers. Only five did not feel that personal contact is worth while.

The following indicates the pattern of the banker's comments:

"Very little contact except when a loan is being considered for a client of theirs; there are now no casual visits."

"Contact is limited but we regard it as highly desirable and endeavor to encourage it."

"They very seldom drop into see us except in connection with the affairs of a particular client. However, local Robert Morris Associates chapter and local CPA association have joint meetings frequently at the committee level. This is very helpful but I would prefer more individual contact."

"A few CPAs are in frequent touch with us. I wish more would take the trouble."

"Very little contact. I feel that bankers and CPAs should be better acquainted and accountants should stop by the bank more often to discuss common clients, especially when an unusual problem exists."

"Most of the CPAs we have dealings with drop in and discuss their work and get the bankers point of view. We feel that such contact is highly desirable."

The views of the small minority were reflected in such statements as these:

"Personal contact has only occurred at this bank twice in the last two years. Wouldn't say 'not desirable,' but serves little purpose. Such contacts should be confined to the joint interviews when borrowers bring their CPAs in when arranging for a loan."

"We very rarely see a CPA. Don't think such type of contact is particularly worth while."

"Not too much contact here. Such contact desirable occasionally if CPA has something definite in mind. Otherwise of limited value."

"Occasional joint meetings are fine but individual contact is not desirable. If every accountant approached us, we'd have no time for our work and neither would they."

The result of this lack of personal contact was underscored when the bankers were asked to estimate the number of CPAs whom they knew and the total number of CPAs in their community.

About 40 of them had a reasonable idea of the number of local CPAs. About 15 would not hazard a guess. All but four of the remaining bankers grossly underestimated the CPA population in their communities. As might be expected, bankers in smaller cities were usually more accurate in their estimates and were familiar with a higher proportion. But even here, the response was erratic. It was not uncommon for bankers in large cities to know personally less than 15 CPAs.

More than half of the loan executives have attended or are now attending joint banker-CPA meetings to air mutual problems. One respondent indicated that the discussions were held monthly; another spoke of yearly intervals. By and large, all of these bankers looked upon these meetings with considerable favor—and many of them felt that their present annual or semi-annual meetings should be held more often. Several were aware of regular get-togethers in other areas and made known their desire for similar local events. As one Eastern banker put it, "I attended a meeting out of the area—it would be good to have one here if it were well organized." In all, thirty-five of the bankers who have not attended such meetings in the past, were interested in organizing local sessions.

Only eight bankers were opposed to joint meetings with CPAs. Said an executive in a Southeastern bank: "They have little purpose. Contacts with CPAs should normally be confined to those occasions when a prospective borrower brings in his accountant for the purpose of arranging a loan." Another maintained that "these meetings are a waste of valuable time to both parties." But such comments represent a small minority.

These quotations are more typical:

> "The meetings would be very valuable for representatives of our credit department. There have been a few but not enough. There is very little of this type of contact and we would like much more."
>
> "I did attend a joint meeting last fall. We discussed subsequent meetings twice a year but nothing has come of it. I would enjoy and benefit bi-monthly meetings, if we had a good program."
>
> "We have had such meetings on a local level and feel they were successful. I think they should be held more often and regularly."
>
> "Such meetings would be highly desirable for they would bring about better understanding and closer working arrangements."
>
> "We have attended many joint meetings—especially through Robert Morris Associates—and find them most helpful."
>
> "It would be extremely helpful if such meetings were held."
>
> "Meetings are now being held frequently and generally informally which results in advantages to both parties."
>
> "I do attend such meetings and they are excellent. However, our problems are not with the CPAs who attend these affairs."

Bankers' General Comments

Some loan executives volunteered certain observations at the end of the interview which throw some additional light on CPA-banker relations.

During these "unprompted" remarks, several of the executives who had recommended improvements once again stressed the need for added detail, "long form" reports, more education of clients, and uniform accounting practices. As shown below, there were no one or two outstanding faults which the respondents either reiterated or brought up anew in their closing remarks. These remarks are broken down between those that are simply concluding statements commending CPAs and those that are of a more critical nature:

Commendations

"CPAs work closely with the bank and our relations with them are excellent."

"There is generally a fine spirit of cooperation between the banker and the accountant."

"The CPAs are becoming less introverted—more social."

"CPAs, through their organizations, have continued to improve their standards, making them more important to banks and clients."

"The CPAs in this area are of high caliber."

"We would like to see more customers using their service."

"We are great promoters of their services."

"They have improved audits considerably in the last ten years and have given us more detail."

"We would like to give them more business. The more unqualified audits we receive, the easier our work would be."

Criticisms

"Reports should be prepared for the purpose for which they are primarily used."

"Inventory is frequently the most important item in the balance sheet, but it is often reported as a figure supplied by management."

"More efforts should be made by the CPAs to educate their clientele about the value of their services. They should 'sell' more complete service, rather than accepting a job at minimum requirements."

"We desire long-form statements and feel that accountants should prove to their clients the value of a complete audit."

"They should speed up their services."

"Unfortunately they don't all live up to the high standards set by their title."

"It would be helpful if uniform methods were used by CPAs for treating the profit and loss statement and the financial balance sheet of contractors, builders, etc. They should be the same whether for taxes or other purposes."

"More efforts are needed to educate clients as to the bank's requirements and needs. Also we need more long form reports."

"Some CPAs are too concerned with holding the client and sometimes tread too close to the ethical line."

"Most CPAs accept work which does not allow them, because of price, to do an acceptable job."

"The CPA should not replace the management in negotiating for credit, and he should not accept more work than his staff can handle."

"Be more generous with advice to clients. See that assets are not overstated. Insure that all liabilities are included. Contingent debts should always be described. Pledged assets should be annotated."

"We feel that the businessman would benefit materially by enlarging the scope of his accountant's engagement. Many an accountant is hampered in the completness of his work by money limitations placed by his client."

"CPAs need further information as to the requirements and the type of information desired by credit grantors."

"We would like to see CPAs state in their opinions that audits are made monthly, quarterly, once a year, etc."

"They should do more to sell their services to small business."

3. Some Concluding Observations

The results of this survey suggest that CPAs can improve their relations with commercial loan executives in a number of ways.

Many bankers appear to be on excellent terms with the CPAs in their localities and display an extensive awareness of the services rendered by them. Frequently, however, the banker knows a relatively small number of CPAs—and some misconceptions about the work and responsibilities of CPAs persist even among the best informed. Some bankers accept a CPA's signature at face value regardless of the nature of the CPA's opinion; others expect his report to be precisely accurate in every detail; others regard the absence of an unqualified opinion as a reflection on the CPA's abilities; and still others complain of the lack of uniformity in accounting and auditing procedures without recognizing the acceptability of alternative procedures. These attitudes are hazardous—for the CPA as well as the banker—and ought to be corrected.

The bankers almost universally acknowledge the importance of independent audits for credit purposes, especially when large loans are involved or the prospective borrower is not known to the banker. Yet, banks vary widely in their requirements. Despite the overwhelming preference for unqualified opinions, only a small minority insist upon them as part of their regular procedure in evaluating a credit application. Many bankers who ordinarily request unqualified reports are apt to settle for less if the borrower raises objections.

Some smaller banks in smaller cities are even less stringent in their audit requirements, perhaps because of greater familiarity with local borrowers; but variations exist among banks of all sizes.

Significantly, a majority of CPAs fail to maintain frequent—and some have not established any—personal contact with their local bankers. As noted above, many bankers deal personally with only a few CPAs and consistently underestimate the number in their community. Yet most bankers would welcome more frequent contact with CPAs.

This is a surprising situation in the light of practical economics. The CPAs interviewed for an earlier bulletin in this series *Building Sound Relations With Your Client* indicated that bankers are a major source of new clients. This is borne out by the bankers who were surveyed for this bulletin—most of whom have had occasions to recommend accountants to their customers. Although a banker rarely confines his recommendations to a single firm, except under unusual circumstances, he will naturally recommend only those CPAs in whom he has confidence. How can this confidence be established, if the banker is not familiar with the CPA and his work? Moreover, relations with an individual banker frequently transcend dealings with his bank alone, because a number of them keep files on local CPAs and exchange information about them.

Although a few bankers accept the work of almost any CPA because of his title, many of them recognize variations in the quality of their work. The general reputation of the firm and its size may play some part in the banker's evaluation of the firm. But more often his judgment will be based on his personal experience—or on the experience of his associates—with individual members of the firm.

The banker, as well as the CPA, will not discuss the special problems of a specific client without his permission. Perhaps more should be done to persuade clients to acquiesce to such meetings. But, in addition to individual problems, there are general topics of interest to both parties which would justify a conference—and many of them have been highlighted by this survey.

For example, bankers frequently complain about the inadequacy of some reports for their needs. Yet the accountant is rarely called in when discussions with the prospective borrower take place. The banker usually describes what is wanted to the borrower and the accountant hears of it second-hand. After the report has been submitted, it is not uncommon for the banker to feel he must check with the accountant for clarification or additional information—and this may require additional work at an additional fee. Although some of the reports may be inadequate for credit purposes, a number of bankers fail to realize that some of the requested information is not normally acquired in the course of a regular audit. If the CPA were aware in advance of the special needs of a particular bank, he could include such schedules during the audit at a minimum of expense. This indicates that some bankers are not too familiar with what should be expected in the usual report and are inclined to assume too much. Or, the borrower fails to understand clearly the requirements of the bank. By the same token, the CPA should keep in mind the primary purposes to be served by the audit. If it is basically for credit purposes, the CPA should certainly be familiar with the requirements of the bank. This, in turn, requires that both CPA and banker do their part in convincing the client of the necessity for the data.

To be effective, however, both must agree on the relative importance of the requested information. Some CPAs are inclined to feel that bankers, in certain instances, request too much information, thereby needlessly increasing the costs to the client. On the other hand, some bankers believe that a CPA may be doing a minimal, or unsatisfactory job, in terms of their needs, or perhaps deferring too much to his client. This study indicates that some bankers recognize that audit reports must serve a multitude of purposes—and that the establishment of credit is just one reason, although an important one, for an audit. This points up the necessity for a close cooperation in order to meet the needs of both the client and the banker.

Some bankers are inclined to leave the task of "selling" the client to the accountant and to hold him responsible if certain data are not forthcoming. CPAs, of course, are reluctant to press the client for work outside the scope of the regular examination unless the additional work is clearly necessary. Here again, the importance of close CPA-banker cooperation is indicated.

Steps the CPA Can Take

What can the CPA do to improve his personal relations with the local banker? Here is what some firms are doing:

1. Club, church and civic activities provide an opportunity to get together with the banker outside the normal working situation.

2. Occasional luncheons appear to be effective. Some bank officers invite CPAs to lunch with their credit men to discuss generally their respective problems. There is no reason why the CPA could not take the initiative in this respect.

3. CPAs should make a continuing effort to get permission from their clients to discuss their affairs with the clients' bankers. Similarly they should encourage the bankers to impress upon their customers the need for closer CPA-banker contact.

4. Some firms make a point of telephoning the banker, when a client's statement is to be used for credit purposes, to offer further assistance if any explanations are desired.

5. Many banks have periodic meetings of their credit men and some CPAs have had the opportunity to attend or participate in them. More frequent invitations might result if the CPA makes himself available.

6. When specialists have been developed within a firm, the bankers should be made aware of their particular talents.

7. Occasional visits by the CPA with the local banker to discuss how well his reports have met the bank's needs and to explore other common problems are favored by many bankers.

8. Some CPAs take the initiative in bringing their clients and bankers together. One practice is to select several clients for individual meetings with their bankers during the slack season to discuss the client's specific financing problems and plans.

Other actions which the CPA can take include:

1. The maintenance of high standards of performance, including the proper supervision of the staff to insure that the firm will be proud to have its name associated with all of its work. Bankers feel that good long form reports are an important manifestation of the quality of the work. Therefore, these reports should be well written and consideration given to including a statement of source and application of funds and other special schedules when the reports are to be used for credit purposes.

2. By familiarizing himself with bank operations and requirements, as well as general business conditions and economics, the CPA is in a better position to represent the "profession of business" to both banker and client.

3. Many bankers evidently feel that CPAs are not aggressive enough in "selling" needed services to their client. This suggests that CPAs should be less reticent in encouraging their clients to make use of such services.

4. Active memberships in local, state and national organizations, in addition to their other benefits, impress the banker with the willingness of the CPA to keep up-to-date and broaden his professional qualifications.

Since the CPA is, in a sense, the "middle man" between client and credit grantor, he cannot expect the banker to make all the overtures. More group meetings of CPAs and bankers appear in order. However, there is a limit to the value of group-exchanged ideas. They ought to be supplemented by exchanges between individuals—and CPAs would be well advised to make a greater effort to cultivate bankers. It cannot help but benefit all concerned.

Appendix A
Distribution of Banks Interviewed

Classification of Banks by Total Deposits and Loans Outstanding

	Loans (Millions $)								
Deposits (Millions $)	Under 5	5-9	10-24	25-49	50-99	100-149	150 & over	No answer	Totals
Under 25	9	2	7	..	..	..	..	1	19
25–49	2	6	..	..	..	..	..	..	8
50–99	..	1	4	2	..	..	..	1	8
100–249	..	..	1	7	13	4	..	..	25
250–499	..	..	..	1	4	6	5	..	16
Over 500	..	..	..	..	..	1	11	1	13
No Answer*	..	..	..	..	..	..	..	11	11
Totals	11	9	12	10	17	11	16	14	100

* Branch banking offices where deposits and loans were not individually available for the office interviewed.

Classification of Banks by Regional Location and Population of Metropolitan Area

	Population of Metropolitan Area					
Region	Under 50,000	50,000-100,000	100,000-500,000	500,000-1,000,000	Over 1,000,000	Totals
New England	..	2	3	..	..	5
Middle East	..	2	10	..	16	28
Southeast	..	2	12	4	..	18
Central	..	3	9	6	4	22
Northwest	1	..	3	1	..	5
Southwest	..	..	3	4	..	7
Far West	..	..	2	7	6	15
Totals	1	9	42	22	26	100

Appendix B
Interview Guide Used in this Study

1a. To what extent, if at all, do you request an independent audit of a prospective borrower's books?

b. What considerations and circumstances guide your policy on whether to request audits? Any other? (Reporter: If not mentioned, ask for and record the maximum size loan—if any—which would be granted *without* an audit.)

2a. When an audit is indicated, do you look for or require an "opinion" on the report from the accountant? Would you explain? (Reporter: If necessary to define "opinion" to respondent, please so indicate.)

b. What importance, if any, do you attach to whether an accountant's "opinion" on an audit is "unqualified," "qualified" or "disclaimed"? (Reporter: If necessary please define terms for respondent, but be sure to indicate which terms were not known by the respondent.)

3a. Prior to making a large business loan or issuing an extensive line of credit, do you discuss the type of financial report you want with the borrower? With his accountant? How is this handled and why?

b. What about after receiving the financial reports—do you sometimes find it necessary and/or desirable to discuss the data with the accountant? Any particular reasons why this is so?

4. What steps, if any, do you take to satisfy yourself as to the competence and responsibility of the accountant making an audit? Any other methods or sources of information?

5a. In general, how would you rate the CPA's work in relation to your bank's lending activities—essential, very helpful, somewhat helpful or unimportant? Any comments on this point?

---

b. What other sources or methods are used—in addition to, or in place of—the CPA's preparation of financial statements for your loan purposes?

6a. What is your general opinion of the CPA's reports you have seen—in terms of accuracy, dependability, thoroughness, clarity and meeting your own needs?

---

b. In what ways, if at all, might CPAs do a better job in designing their reports to fit your own special needs? Any specific examples in mind?

---

c. Specifically, are there any data or points of information which CPAs do not include in their reports, but which you feel are necessary and/or desirable for your purposes?

---

d. Do you recognize any differences in the over-all quality of work between CPA firms? Could you describe?

---

7. Either on request or on your own initiative, do you sometimes recommend particular accountants to prospective borrowers?

( ) No . . . Any particular reasons why not?

( ) Yes . . . How frequent is this?

---

8. On the other hand, have you ever suggested that a borrower change his accountant?

( ) No. ( ) Yes . . . What might be the circumstances behind such a suggestion?

---

9. Are you aware of any services—other than auditing—which CPAs perform?

( ) No. ( ) Yes . . . Would you describe?

---

10. Do you sometimes have occasion to recommend the use of CPAs to bank customers needing management assistance or financial services other than auditing?

( ) No . . . Any special reasons why not?

( ) Yes . . . What would be some examples of the types of assistance or financial services for which you recommend CPAs.

IF YES TO QUESTION 10, ASK QUESTION 11.

11. Do CPAs sometimes refer clients to your bank to seek loans?

12a. Could you sum up, just generally, your ideas as to the possible value of a CPA's service to a business enterprise? Would this opinion be qualified depending on the size of business? (Probe specifically for possible differences in large, medium and small companies.)

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b. In your opinion, how do CPAs rank in value to their clients with other professional consultants or specialists such as lawyers, insurance counselors, advertising agencies, labor relation consultants, management engineers?

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13. On the whole, to your knowledge are the businessmen with whom you are acquainted satisfied with the work of their CPAs.

( ) No . . . What appear to be the major areas of their dissatisfaction?

( ) Yes . . . Are there, nevertheless, some areas of CPA work which businessmen feel could be improved? Examples?

14a. Could you make some estimate as to the approximate number of CPAs in your city?

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b. About how many CPAs and/or CPA firms in your city are you familiar with—even if by name or reputation only?

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c. More particularly, now, could you give us an idea of the number of CPAs and/or CPA firms with which you actually have dealings?

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d. Of the firms with which you actually have dealings, to what extent are these firms known to you by signature only, as opposed to personal contact?

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15. In your evaluation of a CPA, do you consider whether or not the CPA is a member of his state society and the American Institute of CPAs?

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16. In your experience with CPAs, how do they fit in, generally, with your concept of a professional man—that is competence, high ethical standards, solicitude for the client?

17a. To what extent, if at all, do local CPAs make a practice of dropping in to see you to discuss their work and get the banker's point of view? Do you think such contact desirable?

____

b. Are you, or would you be, interested in attending joint banker-CPA meetings to air your problems concerning accountants' reports and other matters of mutual interest?

____

18. Are there any other observations or comments you would like to make on CPAs or their services?

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Please be sure to complete the following classification section:

A. Regional location of the bank
   1. ( ) New England (Maine, New Hampshire, Vermont, Mass., R. I., Conn.)
   2. ( ) Middle East (Del., D. C., Md., N. J., N. Y., Pa., W. Va.)
   3. ( ) Southeast (Ala., Ark., Fla., Ga., Ky., La., Miss., N. C., S. C., Tenn., Va.)
   4. ( ) Central (Ill., Ind., Iowa, Mich., Minn., Mo., Ohio, Wis.)
   5. ( ) Northwest (Col., Idaho, Kan., Mont., Neb., N. D., S. D., Utah, Wyo.)
   6. ( ) Southwest (Ariz., N. Mex., Okla., Texas)
   7. ( ) Far West (Cal., Nev., Ore., Wash.)

B. Population of Metropolitan Area
   1. ( ) Under 25,000
   2. ( ) 25,000–50,000
   3. ( ) 50,000–100,000
   4. ( ) 100,000–500,000
   5. ( ) 500,000–1,000,000
   6. ( ) Over 1,000,000

C. Size of bank at this particular location

   $ deposits $______________________________

   $ loaned for commercial purposes $______________________

D. ( ) Headquarters
   ( ) Branch

Subject Index